BEFORE THE
PUBLIC SERVICE COMMISSION OF UTAH

JOINT APPLICATION OF QUESTAR GAS COMPANY, THE DIVISION OF PUBLIC UTILITIES AND UTAH CLEAN ENERGY FOR THE APPROVAL OF THE CONSERVATION ENABLING TARIFF ADJUSTMENT OPTION AND ACCOUNTING ORDERS	Docket No. 05-057-T01

DIRECT TESTIMONY OF

BARRIE L. MCKAY

FOR

QUESTAR GAS COMPANY

January 23, 2006

QGC Exhibit 1

TABLE OF CONTENTS

PAGE

1

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Barrie L. McKay. My business address is 180 East First South Street, Salt Lake City, Utah.

Q. By whom are you employed and what is your position?

A. I am the Manager of State Regulatory Affairs for Questar Gas Company (Questar Gas or the Company). My education and employment history are attached as QGC Exhibit 1.1.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to explain the proposed Pilot Program that includes the Conservation Enabling Tariff and Demand-Side Management, describe the components of the requested $10.2 million rate reduction, and address other proposed changes.

Q. Why did the Company join in the Joint Application?

A. The Joint Application achieves an important goal. The Conservation Enabling Tariff aligns the interests of the Company, customers, regulators, and other interested parties to effectively use conservation to save energy and reduce customer costs. This is particularly important at a time when customers are bearing the burden of higher energy costs. The Conservation Enabling Tariff allows the Company to support cost-effective Demand-Side-Management programs that benefit customers because it removes the financial harm that the Company experiences when customers' usage declines. In addition, customers will receive a modest reduction in rates.

Q. Is the Joint Application an exhibit to your testimony?

A. Yes. In my testimony, I will be referring to the Joint Application and its Exhibits. Therefore, the Joint Application and Exhibits are incorporated by reference as QGC Exhibit 1.2. Since the Commission and all parties already have a copy of the Joint Application and Exhibits, I have not refiled them as attachments to this testimony.

Q. Are there any other items the Joint Application resolves?

A. Yes. The Joint Application, if approved, will resolve two additional issues: 1) the deferral of pipeline-integrity costs; and 2) the removal of expansion area rates (GSS, IS-2, IS-3, IS-4 and IT-S) that have become an economic development impediment to communities in Southern and Central Utah.

Q. Is there precedent in other jurisdictions for the Pilot Program proposed in the Joint Application?

A. Yes. Many state and national energy-policy groups are discussing and implementing alternative rate designs or tariffs designed to promote energy efficiency and conservation. These tariffs and rate designs are being adopted to remove financial harm experienced by natural gas utilities when Demand-Side-Management programs are implemented. These programs also help address high gas prices. The American Gas Association and the Natural Resources Defense Council issued a joint statement to the National Association of Regulatory Utility Commissioners (NARUC) recommending that public utility commissions consider "innovative programs that encourage increased total energy efficiency and conservation in ways that will align the interests of state regulators, natural gas utility company customers, utility shareholders, and other stakeholders." This statement is Exhibit 1.1 to the Joint Application. The Joint Application requests approval of such an innovative program.

In its 2005 Fall meeting, NARUC adopted the "Resolution on Energy Efficiency and Innovative Rate Design," dated November 16, 2005. NARUC's resolution recognizes that energy conservation and efficiency are, in the short-term, the actions most likely to reduce upward pressure on natural gas prices and that current forms of rate design may tend to create a misalignment between the interests of natural gas utilities and their customers. The resolution further recognizes that:

> Innovative rate designs including "energy efficient tariffs" and "decoupling tariffs" (such as those employed by Northwest Natural Gas in Oregon, Baltimore Gas & Electric and Washington Gas in Maryland, Southwest Gas in California, and Piedmont Natural Gas in North Carolina), "fixed-variable" rates (such as that employed by Northern States Power in North Dakota, and Atlanta Gas Light in Georgia), other options (such as that approved in Oklahoma for

> Oklahoma Natural Gas), and other innovative proposals and programs may assist, especially in the short term, in promoting energy efficiency and energy conservation and slowing the rate of demand growth of natural gas.

Finally, the resolution provides in pertinent part that NARUC:

> [E]ncourages State commissions and other policy makers to review the rate designs they have previously approved to determine whether they should be reconsidered in order to implement innovative rate designs that will encourage energy conservation and energy efficiency that will assist in moderating natural gas demand and reducing upward pressure on natural gas prices . . .

A copy of the NARUC Resolution is attached to the Joint Application as Exhibit 1.2.

Q. Please describe briefly the kinds of programs adopted in other states.

A. Innovative rate designs including "energy efficient tariffs" and "decoupling tariffs" have been approved for Northwest Natural Gas in Oregon, Baltimore Gas & Electric and Washington Natural Gas in Maryland, Southwest Gas in California, and Piedmont Natural Gas in North Carolina. Fixed-variable rate designs that recover most distribution system costs in a monthly fixed charge have been approved for Northern States Power in North Dakota and Atlanta Gas Light in Georgia. QGC Exhibit 1.3 is a chart providing summary information about the decoupling rate mechanisms that have been adopted or are currently proposed in other states. All of these programs attempt to completely remove the financial disincentive that makes it difficult for gas distribution companies to actively promote Demand-Side Management. These programs all involve full decoupling, which means they go far beyond just recovering lost revenue attributable to Demand-Side-Management programs. Several of these programs were adopted outside general rate cases.

II. BACKGROUND

Q. Why were the Allocation and Rate Design and Demand-Side-Management Task Forces established?

A. The Allocation and Rate Design Task Force was established in the Company's last general rate case. The Task Force was ordered to study and consider rate-design issues that had

been raised during that case. The issue of declining customer usage on Questar Gas's collection of non-gas revenue and the resulting disincentive for Questar Gas to support conservation programs was discussed. The Allocation and Rate Design Task Force met 18 times over 18 months. The final report of the Allocation and Rate Design Task Force is included as Exhibit 1.5 to the Joint Application. The Demand-Side-Management Task Force was also established in the last general rate case. This Task Force was directed to examine Demand-Side-Management alternatives for resource planning in the Company's Integrated Resource Plan proceedings. The Commission directed the parties to attempt to reach accord and resolution of these issues for consideration in subsequent regulatory proceedings. The Joint Application is the culmination of three years of meetings, discussion and analysis related to these task forces. The participants in those meetings included representatives of the Division of Public Utilities (Division), the Committee of Consumer Services (Committee), Commission Staff, Utah Clean Energy, Utah Energy Office, Utah State Division of Housing and Community Development (UDHCD) and other interested stakeholders, including groups interested in energy conservation and efficiency and environmental protection.

Q. Were there savings to customers identified in the recommendation made in the final DSM report to the Commission?

A. Yes. The report identified that the net present savings to Questar's residential and commercial customers from implementation of cost-effective natural gas DSM programs, for natural gas, electricity and water, identified in the GDS Study was over $1.5 billion in 2004 dollars. The projected amount of $1.5 billion, over a ten-year period, based on 2004 prices was identified as potential savings to customers assuming unlimited funding. This projected amount includes savings attributable to conservation of electricity and water, as well as natural gas. Additionally, eight recommendations were made in the DSM report all of which have been incorporated in this Joint Application.

Q. What does the foregoing process demonstrate?

A. First, this is not something the joint applicants have rushed into. Second, this shows that the joint applicants, as well as other interested stakeholders, have been following the Commission Order and have analyzed this issue over the last three years.

Q. Did the parties continue to meet following the conclusion of the Allocation and Rate Design Task Force and create an additional report?

A. Yes. At the conclusion of the Allocation and Rate Design Task Force, the Division and the Company continued to meet to discuss various alternative regulatory options. In November 2004, the Company circulated a draft "white paper" to the Division, the Committee, and other interested parties that presented an in-depth overview of how customer usage can impact utility revenues. The 2004 White Paper analyzed five options that could potentially address the decline in customer usage. A copy of the November 2004 White Paper is attached as Exhibit 1.6 to the Joint Application.

Q. What were the goals that the parties were trying to achieve?

A. Three important goals were proposed with regard to the alternatives being analyzed: 1) to remove disincentives for the Company to promote Demand-Side Management; 2) to reduce contention between regulators and the Company by using new rate design concepts; and 3) to allow the Company an opportunity to earn its authorized rate of return during periods of declining usage. Following the November, 2004 White Paper, the Company, Division, Committee, and other interested parties explored various options for addressing these three goals.

Q. What is the disincentive that needs to be removed so that the Company can support Demand-Side Management?

A. The current rate design does not allow the Company to collect its fixed costs when there is a decline in customer usage, and customer usage has been declining for many years. QGC Exhibit 1.4 is a graph showing declining Utah GS-1 temperature-normalized usage per customer from 1980 through 2005. It shows that average usage per customer has declined about 36% over this period. The current rate design recovers the majority of distribution non-gas costs (O&M, depreciation, payroll, taxes, interest expense and return on investment) in a volumetric rate. However, these distribution non-gas costs do not vary as sales volumes go up or down. This is illustrated by QGC Exhibit 1.5. When customer usage is increasing, the Company collects more revenue per customer than the Commission allowed when rates were approved. When customer usage is declining (i.e. less than what was used to set rates), the Company cannot collect the revenue per

customer that the Commission allowed when rates were approved. Only when usage is stable does the revenue per customer match that which was allowed by the Commission. The fact that the Company earned 9.06% on equity in 2002, 10.94% on equity and in 2003 and 10.05% on equity in 2004 is at least in part attributable to this effect. In the absence of a mechanism similar to the proposed Conservation Enabling Tariff, the current rate design is a barrier to the Company in promoting Demand-Side Management. Instead, it provides an incentive for the Company to encourage customers to use more natural gas rather than aligning customers' and Company interests in finding ways to conserve gas.

Q. Were there alternatives discussed in the ongoing task force meetings that would help remove this disincentive?

A. Yes. Over several months, the Company, with the input of the Division and Committee, analyzed the following six alternatives: 1) use of provisions in recent legislation that allow 20-month forecasted test years; 2) filing annual, abbreviated rate cases using projected test years; 3) including a calculation of "lost revenues" associated with reductions in usage in rate case proceedings; 4) implementing rate-design changes designed to recover a higher percentage of the fixed costs through fixed charges and/or higher low-volume initial blocks in a declining-block rate structure; 5) implementing a decoupling mechanism; and 6) filing annual rate cases with a banded rate of return on equity (ROE) with quarterly monitoring and automatic rate changes when the actual ROE falls outside the band.

Q. Did the parties narrow the list of alternatives?

A. Yes. Initially the parties narrowed the list to two alternatives: 1) Revenue Stabilization (this alternative would require annual rate cases, banded ROE and quarterly reviews); and 2) Rate Design (this alternative would use the collection of fixed costs through a monthly delivery charge that recovers the distribution non-gas costs). However, in October 2005, at the Committee's recommendation the list was expanded to include a third option: 3) Conservation Enabling Tariff (this alternative would decouple distribution non-gas revenue collection from volumetric sales). In November 2005, Questar Gas refined the 2004 White Paper to include an in-depth analysis of the three preferred alternatives. A copy of the 2005 White Paper is attached as Exhibit 1.7 to the Joint Application. The

Commission held a technical conference on November 9, 2005, to discuss the three alternatives. Ultimately, through continued discussions and analysis, the joint applicants agreed that the Conservation Enabling Tariff was the preferred option to align the interests of the many stakeholders involved.

Q. Would you please explain how the Conservation Enabling Tariff would align the interests of the Company and its customers?

A. In order to conserve natural resources, protect the environment, and reduce customer costs, customers should be encouraged to reduce their natural gas usage. The Company is in a position to encourage customers to conserve. The Conservation Enabling Tariff allows the Company to be indifferent to the fluctuations in customer usage and to actively support Demand-Side-Management programs because the financial detriment of lower usage will be eliminated.

Q. Why is this the time to act on the interrelated issues of high gas prices, conservation and the adverse impact of conservation on the Company?

A. Simply put, high gas prices provide a window of opportunity to achieve a win/win situation. High prices increase customers' willingness to take action to reduce energy use. QGC Exhibit 1.6 shows usage per customer from 1980 through 2005 and average annual customer bills for the same period. It shows that as gas prices increase usage per customer decreases. Questar Gas wants to more actively encourage conservation, but, as customers use less gas, the ability to recover fixed costs in rates erodes as demonstrated on QGC Exhibit 1.5. The Company is also offering to reduce its rates in this process in conjunction with the approval of the Conservation Enabling Tariff mechanism. Once the proposals made in the Joint Application are approved, Utah natural gas customers will receive an immediate rate reduction and cost-effective Demand-Side-Management programs will be pursued. Utah natural gas customers will receive real help from the Company in pursuing permanent and effective energy-efficiency efforts. The Company, regulators, and other interested stakeholders need to commit to a long-term sustained effort to identify, design and deliver cost-effective energy-efficiency programs.

III. PILOT PROGRAM

Q. Why does the Joint Application propose that the Conservation Enabling Tariff and Demand-Side Management be implemented as a Pilot Program?

A. The Joint Applicants recognized the adverse impact of declining usage per customer on the Company is a serious long-term problem. However, they also recognized that there may be unexpected results from any new program. Therefore, the Joint Applicants recommend that this proposal be implemented as a Pilot Program.

From the Company's perspective, approval of the Pilot Program allows the Conservation Enabling Tariff to be implemented now so that customers and the Company can begin enjoying the benefits. The ultimate goal of all participants wanting to pursue real solutions to these long-term problems should be to refine and perfect the Conservation Enabling Tariff and the Demand-Side-Management program during the three-year Pilot Program with the intention of making them permanent features of the Company's tariff.

Q. Will the Pilot Program be reviewed during the three-year period?

A. Yes, the Division will review the results of the Conservation Enabling Tariff and the cost/benefits of Demand-Side Management at the end of each quarter for the first year and then annually thereafter, or more frequently as needed, and will submit reports to the Commission that include an analysis of each year's results.

Q. Could the Pilot Program be modified during the three-year period?

A. Yes. At any time during the three-year period any party can recommend to the Commission that the Pilot Program be modified or discontinued.

a. Conservation Enabling Tariff

Q. Please give a brief overview of the proposed Conservation Enabling Tariff.

A. The Conservation Enabling Tariff is a rate mechanism designed to ensure that the Company only collects from GS-1 customers the Commission-authorized revenue per customer. The Conservation Enabling Tariff applies only to the GS-1 rate schedule. It

operates as a distribution non-gas (DNG) revenue balancing account for that rate schedule.

Q. Is this the same as the gas balancing account used for the passthrough of gas costs?

A. No. The gas balancing account includes both expenses and revenues. These expenses and revenues are matched or netted against each other and any over- or under-collection is amortized into the Company's gas-cost rates typically twice a year. Thus, increases or decreases in costs are flowed through to customers directly.

Q. What does the Conservation Enabling Tariff balancing account include?

A. The Conservation Enabling Tariff balancing account only includes GS-1 DNG revenues. The Company will record monthly over- or under-recoveries of authorized GS-1 DNG revenue in the Conservation Enabling Tariff balancing account. The allowed GS-1 DNG revenue for a given month is equal to the allowed GS-1 DNG revenue per customer for the month times the actual number of GS-1 customers billed in that month. The monthly accrual (positive or negative) is determined by calculating the difference between the actual billed GS-1 DNG revenue and the allowed DNG revenue for that month. The formula is:

Allowed GS-1 DNG Revenue – Actual GS-1 DNG Revenue = CET Accrual

Q. If expenses are not included in this account, then what happens to the non-gas costs?

A. They are treated as they have always been. The Company is at risk for any increases in non-gas costs, such as operation and maintenance expenses, general inflation, facility costs, increasing labor related costs (e.g. medical expenses), and tax increases.

Q. Under the Conservation Enabling Tariff does the Company have any incentives to control costs?

A. Absolutely. The Company must continue to control costs in order to have an opportunity to earn its allowed return. Should the Company need to increase non-gas rates to recover increases in these costs, it would have to file a general rate case, just as it has in the past.

Q. Please explain how the Conservation Enabling Tariff will actually work.

A. I have prepared QGC Exhibit 1.7 to illustrate how the tariff works. First, the allowed annual DNG revenue is determined. This is done by calculating the current level of Commission-approved DNG revenues using actual 2005 usage per customer, year-end customers and current DNG rates. The result of this calculation, shown on Page 1, Line 1, of QGC Exhibit 1.7, is $224,465,426. This amount is then reduced by the proposed rate reduction of $10,218,684, as shown on Line 2, resulting in $214,246,742 as shown on Line 3. The portion of this revenue attributable to GS-1 customers is $203,196,646 as shown on Line 5. This amount is divided by 2005 year-end customers to arrive at the proposed allowed annual DNG revenue per customer. This amount is $254.23 as shown on Line 7.

As shown on Page 2, Column D, of QGC Exhibit 1.7, the $254.23 is then spread to months based on the pattern of Utah GS-1 revenues per customer in 2005, adjusted for DNG rate changes that occurred during the year. This pattern is shown in Columns B and C. Assuming the Commission approves the requested decrease of $10.2 million, the amounts shown in Column D of Page 2 are the monthly allowed DNG revenue per Utah GS-1 customer proposed to be implemented in the Conservation Enabling Tariff beginning in January 2006.

Q. How are entries made into the Conservation Enabling Tariff deferred balancing account?

A. On a monthly basis, the monthly-allowed GS-1 DNG revenue per customer is multiplied by the actual number of GS-1 customers. The product is compared to the actual GS-1 DNG revenue that has been billed to customers using the then-effective block and basic-service-fee rate structure. Any difference, positive or negative, is booked into the deferred-balancing account (Account 191.9). An example showing how this would be done for January 2006 is provided on Page 3 of QGC Exhibit 1.7. Interest will accrue and will be booked into Account 191.9 as currently approved by the Commission for Account 191 and described in the Utah Tariff, Section 2.10.

Q. How will the balance in the account be amortized?

A. On a schedule of not less than twice per year, the Company will file for a percentage adjustment to the GS-1 DNG block rates to amortize the balance of Account 191.9 over the projected sales for the upcoming 12 months. The Company anticipates that these filings will be made contemporaneously with its regular passthrough filings. The Commission-approved amortization will increase or decrease the volumetric DNG rates for the GS-1 rate schedule on a prospective basis.

Q. Will customers be billed in a different way under the Conservation Enabling Tariff?

A. No. Page 1 of QGC Exhibit 1.8 is a copy of the currently effective GS-1 rate schedule. Page 2 reflects implementation of the Conservation Enabling Tariff, including the effect of the $10.2 million rate reduction. The same components currently included in the DNG portion of the bill will continue to be included in the DNG portion of the bill following adoption of the Conservation Enabling Tariff. The form and components of the bill will not change in any way.

Q. Can you provide an illustration of the impact of conservation on a typical GS-1 customer's bill?

A. Yes. QGC Exhibit 1.9 provides an illustration. Using the proposed rates, a typical customer using 115.0 Dth annually would be billed $1,273.43, $1000.34 for the commodity portion of the bill and $273.09 for the DNG portion, as shown on Column B, Lines 1-4. Assuming the customer decreases annual usage through conservation by only two percent to 112.7 Dth, the commodity portion of the bill would decrease to $980.23 (Line 6), a savings of $20.11 (Line 10). The DNG portion of the bill would decrease to $268.83 (Line 7), a savings of $4.26 (Line 9). The $4.26 would be accrued in the Conservation Enabling Tariff balancing account to be amortized at a later date to all GS-1 customers.

Q. How would this same level of conservation affect the entire GS-1 customer group?

A. QGC Exhibit 1.10 provides the calculation on a total customer class basis. Annual savings to customers in reduced bills would be over $16 million, or $20.11 per customer, (Column B, Line 11).

Q. Would there by any other effects?

A. Yes. As shown on Line 6, Column B of QGC Exhibit 1.10, there would be a savings of $19 million in purchased gas costs at current prices. Thus, there would be an additional savings to customers as shown on Line 7 of $3,246,000 ($19,394,000 - $16,148,000) in future gas cost passthroughs. In addition, there would be reductions in future gas costs over the longer term as a result of declining demand. I have not attempted to estimate this longer term savings.

Q. How does the additional $3.2 million savings in future passthroughs affect an individual customer?

A. It nearly offsets the amortization of the Conservation Enabling Tariff accrual of $4.26 discussed previously. As shown on QGC Exhibit 1.10, Line 8, the $3,246,000 passthrough savings translates to $4.04 per customer for a total realized savings per customer of $24.15, as shown on Line 10.

Q. Are there additional savings that a customer will realize?

A. Yes. As a result of the $10.2 million rate reduction proposed in the Joint Application, customers will receive an additional annual savings of $13.93. This is shown on Column F, Line 13 of Exhibit 1.10 of the Joint Application. In total, this results in savings to customers of approximately $38 on an annual basis.

Q. Does the Commission need to issue an accounting order for the Company to implement the Conservation Enabling Tariff as described?

A. Yes. An accounting order allowing the Company to record the differences between the allowed and actual GS-1 revenue into Account 191.9, to impute interest on the balance, and to amortize the balance in that account through periodic changes in the GS-1 distribution non-gas rates is required.

b. Proposed Demand-Side-Management Initiatives

Q. Please review the proposed Demand-Side-Management initiatives the Joint Application is proposing.

A. The Joint Application describes the efforts of the Demand-Side Management Advisory Group that was established by Commission Order in the 2002 rate case and the report developed by GDS Associates, Inc. on Natural Gas Demand-Side Management in Utah (GDS Report). The Joint Application recommends that a task force be created to evaluate and propose specific cost-effective natural gas Demand-Side-Management programs using the GDS Report as a guide. Some of the potential programs described in the GDS Report include encouraging installation of set-back thermostats, water heater blankets, high efficiency furnaces and Energy Star appliances. The Joint Application recommends that two other initiatives be considered by the Advisory Group: 1) the adoption of a program designed to pursue education and provision of low-cost efficiency measures to a large number of low-income households and 2) an effort to grow the capabilities of the Low-Income Weatherization Assistance Program (LIWAP) to extend beyond the low-income population.

The Natural Gas DSM Advisory Group will include representatives from the Company, the Committee, the Governor's Energy Advisor, Utah Clean Energy, Southwest Energy Efficiency Project (SWEEP) and other interested parties. The Advisory Group will make recommendations regarding Demand-Side Management to the Commission for approval.

Q. Please explain the proposed increase in funding for LIWAP.

A. LIWAP's current level of funding for health and safety measures from Questar Gas is $250,000. The Joint Application proposes to increase this level of funding to $500,000. LIWAP health and safety measures include inspection, adjustments, and, if necessary, replacement of furnaces. A funding increase of this magnitude is well below the increase of $625,000 recommended by the GDS Report in the portion titled Optimal Level of Funding for Utah Weatherization Program.

Q. How will the Company fund new Demand-Side-Management efforts?

A. The Joint Application proposes to establish a Demand-Side-Management deferred account to account for authorized Demand-Side-Management expenditures. The balance in this account will be amortized periodically in conjunction with the Conservation Enabling Tariff balancing account. The Joint Application also proposes to establish the Demand-Side-Management deferred account with an initial credit balance of $1.3 million.

Q. What is the source of the initial funding?

A. In past cases, the Commission authorized the Company to collect revenue earmarked for Research and Development (R&D). Currently, the Company has $1.3 million available to transfer from R&D to Demand-Side Management. The Joint Application proposes to spend these dollars on Demand-Side Management rather than R&D. Amortization of the Demand-Side-Management deferred account will not begin until $1.3 million has been expended for approved Demand-Side-Management programs.

Q. Does the Commission need to issue an accounting order related to the deferral of Demand-Side-Management costs?

A. Yes. The Commission needs to issue an accounting order allowing the Company to defer the Demand-Side-Management related costs into Account 182.4, to impute interest on the balance, and to amortize the balance in that account through periodic changes in the GS-1 non-gas rates.

IV. RATE REDUCTION

Q. Does the Joint Application propose a rate reduction?

A. Yes. The Joint Application proposes to reduce rates to all Utah rate classes by $10.2 million. It proposes that the reduction in revenue be allocated on a percentage basis through a change in volumetric DNG rates in all Utah rate schedules.

Q. What are the changes that drive the rate reduction?

A. There are three primary drivers of the rate reduction:

1. The Company has recently completed a depreciation study that, if implemented, would result in annual depreciation expenses being reduced by about $4.8 million.
2. During December 2005, the Company issued new long-term debt. The overall impact of the financing is to reduce the revenue requirement by about $3.2 million.
3. The Company has agreed to reduce revenues an additional $3.6 million.

a. Tariff Revisions to Decrease Rates - 1997 Case

Q. Has the Company ever proposed a tariff change that resulted in a rate decrease in the past?

A. Yes. In February of 1997 in Docket No. 97-057-03, the Company proposed a tariff change that resulted in a small rate decrease. That proposal was supported by the Division and the Committee.

Q. What were the events that led to that tariff change?

A. Near the end of 1996, the Company filed a mid-year Results of Operations report that showed an increase in usage per customer which resulted in regulatory-adjusted earnings being above the level found reasonable by the Commission in the prior general rate case. As a result, on January 8, 1997, the Division filed a petition with the Commission requesting an investigation into the reasonableness of the Company's rates. The Company, Division and Committee held several meetings giving the parties an opportunity to discuss and review the Company's actual and budgeted revenues, operating expenses and capital expenditures for 1996 and 1997. After these discussions, the Division agreed to dismiss its petition and, in exchange, the Company agreed to file tariff changes resulting in a $2.85 million decrease. The tariff changes were filed on February 4, 1997. The Commission approved the requested tariff changes with rates effective February 21, 1997.

Q. Is the rate reduction in this case designed to respond to a similar potential overearning situation?

A. No. Based on the most recent semi-annual results of operations, the Company is earning below its authorized rate of return.

Q. Has the Division had an opportunity to do a review of the current proposed rate reduction similar to that in 1997?

A. Yes. The Division regularly reviews the Company's semi-annual results of operations. In this instance, the Division reviewed the June 2005 results of operations, as well as an updated projection of results through the end of 2005.

Q. Was this the same kind of review as was done in 1997?

A. Yes. As a result of its review, the Division and the Company agreed to the proposed rate reduction of $10.2 million.

Q. Does this Joint Application propose to change the Company's allowed return on equity?

A. No.

b. Depreciation Study

Q. Please discuss the depreciation study in more detail.

A. In the 2002 rate case, the Commission ordered the Company to conduct a review of its depreciation policies. In response, the Company engaged Gannett Fleming, a consulting firm that specializes in depreciation studies, to conduct such a review.

Historically, the Company has used a straight-line depreciation method to depreciate the majority of its property, plant and equipment over the estimated useful lives. (Production plant is depreciated on a units-of-production depreciation method.) The Company had not previously engaged a consultant to perform a detailed review of depreciation lives. Rather, the Company used its own estimates of the estimated useful lives. For example, the Company has for many years depreciated all of its distribution plant over a 33-year life.

Gannett Fleming evaluated the expected useful life of all classes of property, plant and equipment except production plant. They identified the expected useful life and pattern of retirements of these classes by evaluating the Company's historical pattern of plant

retirements, discussing operating procedures with the Company's engineers and reviewing industry practices.

Based on its review, Gannett Fleming proposed changes to the useful lives of a number of classes of property, plant and equipment. The proposal also considered the expected salvage value or cost to retire the class of property, plant and equipment. Finally, the proposal evaluated the recorded balance in accumulated depreciation and adjusted the balance to be consistent with the new lives over a ten-year period.

On December 9, 2005, Gannett Fleming met with representatives from the Company, the Division, and the Committee and explained its analysis, reviewed various depreciation methodologies and how each methodology affected Questar Gas. They explained that the actual life of property, plant and equipment has generally proven to be longer than was originally anticipated, justifying the use of longer lives.

The Joint Application proposes that the depreciation lives and adjusted rates recommended by Gannett Fleming be adopted effective January 1, 2006, and that the accumulated depreciation balances be adjusted to conform to this methodology over a ten-year period. The Joint Application requests an accounting order approving adoption of the Average Service Life methodology and the passing on of the decrease in depreciation expense to customers through lower rates. The final depreciation study prepared by Gannett Fleming is attached as QGC Exhibit 1.11.

Q. Does the approval of the rate reduction, including the proposed depreciation methodology, preclude parties from analyzing the depreciation study further and proposing changes to the study?

A. No. All interested parties will be able to review the depreciation study in detail. Some parties may even want to hire experts. If there are proposed changes to the study or the depreciation methodology, they can be brought before the Commission subsequently. However, the Company and the Division have satisfied themselves that this is a just and reasonable change and would like to begin passing on the benefits of the current depreciation study to customers by including it in this tariff change filing.

c. Long-Term Financing

Q. Please discuss the long-term debt financing.

A. On December 15, 2005, Questar Gas completed a financing transaction that increased its long-term debt by $50 million. This resulted in more debt and less equity in the capital structure. This reduces costs to customers. Rather than delay the benefits of this cost reduction, the Joint Application proposes passing the $3.2 million reduction on to customers as part of this Pilot Program.

d. Voluntary Rate Reduction

Q. Please discuss the voluntary reduction.

A. The Company and the Division agreed to further reduce rates by an additional $3.6 million in conjunction with the implementation of the Pilot Program.

V. OTHER PROPOSED CHANGES

a. GSS Expansion Area Rates

Q. Why does the Joint Application propose to eliminate the expansion area rate premiums?

A. The status and continuation of the expansion area rate premiums and Expansion Area Charges (EAC) have been the subject of discussions and meetings among the Company, the Division, the Committee, the Commission Staff, representatives of the expansion area communities and other interested parties over the past several months. On December 6, 2005, the Commission held a technical conference for all interested parties to address this issue. It was in consideration of these discussions that the Company and Division agreed to propose that the expansion area rates (GSS, IS-2, IS-3, IS-4 and IT-S) be eliminated at this time. The Joint Application also requests the Commission to appoint a task force to further discuss the best course of action in regard to the existing EACs and to recommend tariff language to address future requests by communities for expansion of the system. The Joint Application proposes that this task force begin meeting immediately and issue a final report to the Commission within 90 days.

b. Deferred Pipeline Integrity Costs

Q. Please discuss the request to amortize deferred pipeline integrity costs beginning in 2006.

A. In Docket No. 04-057-03, Questar Gas applied for an accounting order authorizing the Company to establish a deferred account or regulatory asset for costs that the Company would incur in the future to meet the requirements of the Pipeline Safety Improvement Act. The application also requested that the Company be allowed to amortize the deferred costs beginning the earlier of 2007 or the next general rate case. This request was granted. Rather than waiting until 2007 to begin amortizing the balance as directed in the order, the Joint Application proposes that the order be modified to allow the Company to begin amortizing the balance in 2006 in conjunction with implementation of rates associated with the tariff changes requested in the Joint Application. Based on the year-end balance in the deferred account, this five-year amortization amounts is $622,000 per year. QGC Exhibit 1.12 shows the derivation of this amount.

Q. Does the Company expect to incur additional costs to comply with the Pipeline Safety Improvement Act?

A. Yes. The sums previously spent were primarily for evaluation of the extent of work required to comply with the new act. Based on this analysis and engineering estimates, the Company anticipates that pipeline integrity costs will be at least $1.4 million per year for the foreseeable future. The Company and the Division have agreed that on a going-forward basis, annual expenses related to meeting the requirements of the Pipeline Safety Improvement Act that are greater or less than $1.4 million should be entered into a new deferred account as increases or decreases, respectively.

Q. Will interest accrue on the new Pipeline Safety Improvement Act deferred account and when does the Joint Application propose that Questar Gas begin amortizing the balance?

A. The Joint Application proposes that interest be accrued on the balance in the new Pipeline Safety Improvement Act deferred account at the rate currently approved by the Commission for Account 191 and described in the Utah Tariff, Section 2.10, and to

amortize new balances in the account over a five year period beginning at the next Questar Gas general rate case.

c. Proposed Service Quality Standards

Q. The Joint Application also addresses service quality standards. Does the Company have a continued incentive to provide high quality service to customers?

A. Yes.

Q. Does the Company currently report on its ability to meet service quality standards?

A. Yes. In the Service Standards Stipulation and Settlement in Docket No. 02-057-02, those settling parties agreed that Questar Gas would submit a quarterly customer satisfaction standards report. This report was developed primarily as a management tool utilized by the Company. It is also useful for monitoring and review purposes by regulators. The parties also agreed that a second Questar Gas quarterly report would be made public and would provide information in at least the following areas: call answering, emergency response, customer service activations, response to billing inquiries and safety.

Q. Does the Joint Application propose changes to the Service Quality Standards?

A. Only one. The Joint Application proposes that the Emergency Calls goal should be modified so that 90% of emergency calls on Questar Gas' system are responded to within one hour pursuant to the Company's internal goals filed with the Commission, Division and Committee. The Joint Application proposes that if the Company does not meet this service quality standard, the Division may initiate an investigation and may recommend penalties. Additionally, the Joint Application proposes that a Service Quality Standards Working Group should be formed to evaluate other customer service standards during the Pilot Program.

VI. SUMMARY

Q. Would you please summarize your testimony?

A. The Joint Application proposes a $10.2 million rate reduction for customers in conjunction with a Pilot Program for a Conservation Enabling Tariff and Demand-Side-

Management programs. The Conversation Enabling Tariff aligns Company and customer interests in encouraging energy conservation programs and cost-effective Demand-Side-Management programs. The Company believes that this Pilot Program is an important means to provide immediate savings for customers, during this time of exceptionally high bills, as well as into the future. The Company, the Division of Public Utilities and Utah Clean Energy have worked diligently over the last several months to reach a joint proposal that would align the interests of the Company with the interests of its customers. We believe that approval of the Joint Application is a very important step in the direction of reducing customers' bills and achieving a means to encourage conservation.

Q. How does the Joint Application propose to implement this Pilot Program?

A. The Joint Application asks the Commission to put in place rates that are lower than the rates the Company is currently authorized to collect and to approve a Pilot Program that enables the Company to promote energy efficiency and conservation. The reduced rates are proposed to be implemented on a final basis. The Company believes that the time value of early implementation of a rate reduction and the benefits of the Pilot Program would be frustrated by a delay that would occur through implementing these changes only after a lengthy general rate case. Nothing in the Joint Application forecloses the opportunity of any interested party to explore the possibility of other tariff or rate changes in the future or to seek modifications of the Conservation Enabling Tariff during the Pilot Program. There is no reason to delay these benefits while interested parties attempt to determine if other changes might be justified. The Company believes that this immediate reduction of $10.2 million results in just and reasonable rates, with the potential for even greater savings to customers through cost–effective Demand-Side-Management programs, and that the Joint Application is in the public interest.

Q. Does this conclude your testimony?

A. Yes.

State of Utah)

: ss.

County of Salt Lake)

I, Barrie L. McKay, being first duly sworn on oath, state that the answers in the foregoing written testimony are true and correct to the best of my knowledge, information and belief. Except as stated in the testimony, the exhibits attached to the testimony were prepared by me or under my direction and supervision, and they are true and correct to the best of my knowledge, information and belief. Any exhibits not prepared by me or under my direction and supervision are true and correct copies of the documents they purport to be.

_____

Barrie L. McKay

SUBSCRIBED AND SWORN TO this 23^{d} day of January 2006.

_____

Notary Public